Pension changes would bring city into the mainstream

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PROVIDENCE — If Providence enacts numerous sweeping changes to its pension plan, it would only bring the city into the mainstream of what most cities offer their employees and their retirees, according to the city's outside actuary.

"They're right on the mark," said Dan Sherman, an actuary with Buck Consultants, of the city's planned changes. "A lot of pension systems already have these kinds of reforms in them.

"The kind of systems that are as generous as yours are slowing going away," he said.

The city is considering a series of major changes to pay down its unfunded pension liability — the debt it would owe to its pension system over the life of the plan. That figure is up to $659 million, and will continue to rise each year unless action is taken.

The city got into this situation by failing to put the required amount of money into its pension system for many years. The city is now making its recommended contribution, which is more than $50 million annually.

The administration's plan would close the pension system to all new retirees and place them into a municipal version of a 401(k) program, where employees make contributions and the city matches.

It would make the requirements for getting a disability pension stricter and require that employees receiving disability pensions recertify their status every year. At the same time, employees receiving disability pensions would have caps on how much outside income they could earn while still receiving the full pension.

Employees with less than five years of service would be given the option of staying in the old system, but the administration plans to raise retirement ages and change the terms of early retirement.

The city also plans to borrow enough money to pay down the unfunded liability. To do that, the city would borrow the money through a pension-obligation bond and pay off the pension system's debt.

Last night, Sherman came before the City Council Finance Committee to discuss the pension situation and assess the city's plan.

Sherman said that the city's plan was reasonable, and that the proposed reforms were similar to those that cities such as Worcester have adopted in recent years.

He also said that the size of the city's unfunded liability might improve slightly when it is recalculated this summer, because the city is now paying the proper

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amount into the system, and its investments have done well.

He said that floating the pension-obligation bond should not affect the city's bond rating, despite the large amount of borrowing. Because the city will use the money to pay down the unfunded liability, "you're just exchanging one debt for another," he said.

City officials are hoping to begin making real changes before the legislative session ends this summer.

The pension-obligation bond is subject to approval by the General Assembly, which can also tack on more changes as requirements for improving the bond.

"If we float a pension-obligation bond, there's going to be criteria put on it. When we get up there, the legislature, the governor — they may tell us they want us to do A, B, and C — just to let us float the bond."

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